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INTERNATIONAL COOPERATION IN ECONOMIC AND SECURITY AFFAIRS

By CHARLES LIPSON*

THE study of international political economy is distinguished not only by its substantive focus but also by its continuing attention to cooperative, or at least rule-guided, arrangements. These cooperative arrangements are defined variously: as an open world economy by Robert Gilpin and Stephen Krasner, and as strong international regimes by Robert Keohane and Joseph Nye.¹ But in either case, the problems of cooperation and order are not approached simply as tactical alliances or as limiting cases of international anarchy. Instead, close attention is paid to the possibilities for rule making and institution building, however fragile and circumscribed they may be. By this view, the absence of a Hobbesian "common power to keep them all in awe" does not preclude the establishment of some effective joint controls over the international environment. Elaborating on this perspective, Brian Barry argues that "international affairs are not a pure anarchy in which nobody has any reason for expecting reciprocal relations to hold up. In economic matters, particularly, there is a good deal of room for stable expectations."²

These stable expectations, which arise in the context of repeated transactions, are critically important since they can serve as the basis for international rules and conventions. Indeed, legal theorist Lon Fuller argues that this is exactly how *all* customary law develops. It grows, he says, out of stable, complementary expectations and serves as both a "language of interaction" and a "base line for human interaction."³ Along

*I especially wish to thank Peter Cowhey, Russell Hardin, Morton Kaplan, Robert Keohane, and Duncan Snidal for their valuable advice. A preliminary version of this paper was presented in May 1983 at a conference on International Regimes and Institutional Design, sponsored by the World Peace Foundation. This research was supported by a fellowship from the German Marshall Fund of the United States.

¹ Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York: Basic Books, 1975); Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976), 317-47; Robert Keohane and Joseph Nye, *Power and Interdependence* (Boston: Little, Brown, 1977).

² Brian Barry, "Do Countries Have Moral Obligations? The Case of World Poverty," in Sterling McMurrin, ed., *The Tanner Lectures on Human Values*, Vol. II (Salt Lake City: University of Utah Press, 1981), 30. Barry's use of the term "anarchy" obviously differs from its more typically circumscribed meaning in international relations: "the absence of an international sovereign."

³ Lon L. Fuller, "Law and Human Interaction," in Harry M. Johnson, ed., *Social System*

the same lines, recent studies of international regimes emphasize the centrality of interactional expectancies.⁴

What has not been answered satisfactorily is why convergent expectations characterize some issues but not others. Why do some issues admit of extensive regulation whereas others do not? Put another way, the problem is to go beyond a reassertion of the distinctive subject matter of international political economy and to construct a *theoretically principled account of why significantly different institutional arrangements are associated with international economic and security issues*. An answer to this fundamental question could well lie in the different forms of strategic interaction (including expectations) that typify these two broad issues.

THE PRISONER'S DILEMMA AS A POLITICAL DILEMMA

The most direct and systematic approach to questions of strategic interaction is through game theory (and, relatedly, through theories of simulated gaming). In this section I shall consider one particularly important game, the Prisoner's Dilemma, which helps clarify some basic features of international conflict and cooperation. In the following sections, I shall argue that the situational context is crucial to achieving cooperation in a repeatedly played Prisoner's Dilemma, and, further, that this context is significantly different in economic and security issues.

The Prisoner's Dilemma, in its simplest form, involves two players. Each is assumed to be a self-interested, self-reliant maximizer of his own utility, an assumption that clearly parallels the Realist conception of sovereign states in international politics. Each player can move only once per game, and each faces a simple choice: to cooperate or to defect. Under these conditions, each player can maximize his own reward by defecting, *regardless of what the other does*. Note, however, that if both defect, each receives a smaller reward than if they had cooperated. The formal result is that the game's equilibrium, in which both players defect, is stable but not Pareto optimal.⁵

Unfortunately, it is not easy to move toward the collectively rational solution or to maintain it, were it ever achieved. If a "nice" player were to try to cooperate, for example, his counterpart could play him for a "sucker" and reap greater rewards by defecting than by reciprocating.

and Legal Process: Theory, Comparative Perspectives, and Special Studies (San Francisco: Jossey-Bass, 1978), 61, 76.

⁴ See the definition of regimes given by Krasner in his introductory essay and used by most contributors to *International Regimes* (Ithaca, NY: Cornell University Press, 1983), 1.

⁵ The Prisoner's Dilemma is the only two-player game with such a deficient equilibrium in which both players have dominant strategies.

FIGURE I
THE PRISONER'S DILEMMA

		Player 2	
		Cooperate	Defect
Player 1	Cooperate	R = 3 R = 3	S = 1 P = 4
	Defect	T = 4 S = 1	P = 2 P = 2

Note: Payoffs are given as ordinal rankings, with 4 as most preferred; for each player $T > R > P > S$, where

T = temptation to defect

R = reward for mutual cooperation

P = punishment for mutual defection

S = sucker's payoff for unreciprocated cooperation

No player has any incentive to take the first step toward a cooperative solution, and, if it could be achieved, every player would have strong individual incentives to depart from it.⁶ The dilemma, then, is the ineluctable failure to coordinate despite the obvious possibility of joint gains.

Because the Prisoner's Dilemma highlights both the potential gains from cooperation and the temptations that prevent it, it has been taken as an elegant expression of the most profound *political* dilemmas, including that of the social contract. Indeed, Jon Elster once defined politics as "the study of ways of transcending the Prisoner's Dilemma."⁷ Social-exchange theories take up this problem quite directly. The central explanatory issue in such theories, according to Russell Hardin, is to determine "how relationships are ramified in relevant ways to make cooperation of exchange rationally secure."⁸ This issue is obviously pertinent to the study of international political economy, with its emphasis on the emergence of cooperation and exchange in an anarchic world of sovereign states.

Actually, cooperation under the Prisoner's Dilemma would be relatively simple were it not for several restrictions that define the game in its fundamental form. One is that players cannot rely on any outside

⁶ In Jon Elster's terms, a cooperative solution is not "individually accessible" or "individually stable." Elster, *Ulysses and the Sirens* (Cambridge, England, and Paris: Cambridge University Press and Editions de la maison des sciences de l'homme, 1979), 21. The problems of the "nice" egoist, who takes the first step toward cooperation, are explored in Robert Axelrod, "The Emergence of Cooperation among Egoists," *American Political Science Review* 75 (June 1981), 306-18.

⁷ Elster, "Some Conceptual Problems in Political Theory," in Brian Barry, ed., *Power and Political Theory* (London: John Wiley, 1976), 249.

⁸ Russell Hardin, *Collective Action* (Baltimore: Johns Hopkins University Press, for Resources for the Future, 1982), 215.

assistance. There is no external mechanism to enforce threats or promises.⁹ Nor can any player know what the other will do on a given move, so reputation is worthless. This restriction also prohibits metagame strategies in which either player can choose "the same move as the other player."¹⁰ Finally, there is no way for a player to change the other's payoff ranking.¹¹ The game is thus rigid (all its rules are completely specified and defined in advance) and "environment poor" (all players understand the rules, the number of variables is highly limited, and the emphasis is on abstract structure rather than on institutional or environmental detail).¹²

These restrictions, and the ability to vary them, permit the Prisoner's Dilemma to be simulated in interesting ways. At the same time, they suggest that in situations resembling the Prisoner's Dilemma an inhospitable social context and the absence of certain institutions may block cooperative solutions. In fact, the restrictions imposed by gaming theorists point to practical devices used to resolve real-life Prisoner's Dilemmas. Metagame solutions are possible, for example, if escrow mechanisms are available (since they permit simultaneous, contingent decisions) or if third parties such as the state can guarantee contracts. Such institutional devices are common domestically but rare internationally. Indeed, the absence of reliable guarantees is an essential feature of international relations and a major obstacle to concluding treaties, contracts, and agreements. Thus, the constraints on opportunism are weak.

If cooperation is to arise in the institutionally arid setting of the Prisoner's Dilemma, its sources often lie in the game's environmental context or its repeated play. The mere fact of repetition changes several key features of the game, especially if the players can communicate.¹³ These subtle but important changes are one reason why Martin Shubik speaks of a "class" of Prisoner's Dilemma games, which are often mis-

⁹ Thus, any promises (such as "I will cooperate if you will cooperate") cannot be relied upon. If, however, a player feels ethically obliged to keep such promises, then his payoff structure must be modified accordingly and the game is no longer a Prisoner's Dilemma.

¹⁰ Such metastrategies permit synchronic reciprocity and leave no room for being a "sucker" unless only one side can play a metastrategy. Metagames and their strategies are treated in depth in Nigel Howard, *Paradoxes of Rationality: Theory of Metagames and Political Behavior* (Cambridge: M.I.T. Press, 1971).

¹¹ Axelrod (fn. 6), 308; see also Axelrod's innovative treatment of changes in players' utilities in *Conflict of Interest* (Chicago: Markham, 1970).

¹² Martin Shubik, *Games for Society, Business and War: Towards a Theory of Gaming* (New York: Elsevier, 1975), 3-4.

¹³ Repeated moves *within* a single game can have similar effects. As R. Harrison Wagner has shown, cooperation can arise in single-play games resembling the Prisoner's Dilemma (that is, where conditional cooperation is Pareto optimal) when the players must make an indefinite sequence of moves. Wagner, "The Theory of Games and the Problem of International Cooperation," *American Political Science Review* 77 (June 1983), 330-46.

taken for a single game.¹⁴ Not only does repetition permit players to make threats and commitments, it also makes reputation important—all the more so since there is no external guarantee that promises will be kept. Beyond developing a reputation, a player can also make his strategy explicitly contingent on the choices of others, including their willingness to cooperate for joint gains.

TIT FOR TAT is one such contingent strategy (and a very important one, as we shall see later). Using this strategy, a player always cooperates on the first move. This “nice” strategy receives either the reward for mutual cooperation or the sucker’s payoff if it is not reciprocated. From then on, the TIT FOR TAT player does whatever the other player did on the previous move. This strategy simultaneously offers to cooperate, to retaliate, and to resume cooperation after punishing defection.

Like all strategies in iterated games, this one has a present (discounted) value, which players try to maximize. To calculate this value, we assume that earlier payoffs are worth more than later ones, either because future consumption is valued less or because the game’s continuation is uncertain.¹⁵ Then, using each player’s discount for the future, we can cumulate the present value of all payoffs.

To illustrate, let us assume that both players choose the strategy, TIT FOR TAT. Each then wins the payoff R (the reward for cooperation) for every round of the game. Since the first round is played immediately, its present value to each player is R . If the game continues for a second round, each player will again receive R . But he will receive it only when that round is played—sometime in the future. The present value (before round one) of this second payoff is wR , some fraction of the immediate reward. This fraction reflects the player’s discount for future rewards and his uncertainty about the game’s continuing to this point. (Thus, the discount parameter, w , will approach 1.0 if the game’s continuation is likely or if future consumption is relatively important.) For a potentially infinite game, the present value for the stream of cooperative payoffs is

$$V = R + wR + w^2R + w^3R + \dots$$

$$V = \frac{R}{1 - w}, \quad \text{where } 0 \leq w \leq 1.$$

Robert Axelrod has shown that if the discount parameter, w , is sufficiently large, there is no one best strategy independent of the other

¹⁴ Shubik, “Game Theory, Behavior, and the Paradox of the Prisoner’s Dilemma: Three Solutions,” *Journal of Conflict Resolution* 14 (June 1970), 191.

¹⁵ Axelrod (fn. 6), 308.

player's choice.¹⁶ If the future is very important, in other words, the players' optimal strategies are interdependent.

Even more important, Axelrod has shown that a strategy of co-operation based on reciprocity (TIT FOR TAT) can foster the emergence of stable cooperation among egoists.¹⁷ He assumes that many individuals are playing separate games against each other, one at a time. In such a world, even if many players refuse to cooperate, small clusters of discriminating players can still profit from playing TIT FOR TAT as long as they have even a small fraction of their interactions with each other. Axelrod's conclusion is striking and evocative: "Mutual cooperation can emerge in a world of egoists without central control, by starting with a cluster of individuals who rely on reciprocity."¹⁸

These findings obviously bear on a central issue in international relations theory: the emergence and maintenance of cooperation among sovereign, self-interested states, operating without any centralized authority. If the time horizon is long enough, then the best strategy for individual actors is some initial generosity (that is, cooperating unilaterally on the first move), followed by tough-minded reciprocity. The more general result, as Hardin observes, is that "when there is even tacit opportunity for making one's choices contingent on those of one's adversary-partner, that is, of threatening the partner with defection in return for defection, rationality can become strategic."¹⁹

It is now generally recognized that cooperation can be strategically rational if the Prisoner's Dilemma is potentially infinite or if it is simultaneously linked to a wide variety of other games with the same players. Under these conditions, players can *individually* benefit from coordination conventions—whether they arise spontaneously, by following a leader, or through centralized efforts. In international relations, such conventions, which are typically grounded in ongoing reciprocal exchange, range from international law to regime rules. They form "baselines for interaction" and are extensive despite the chronic condition of international anarchy.²⁰

¹⁶ *Ibid.*, 309. As we already know, if the game is played only once, then $w = 0$ (since all future payoffs are worth zero) and defection is always the best individual strategy.

¹⁷ These arguments are summarized in Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984).

¹⁸ Axelrod (fn. 6), 317; also see Robert Axelrod and William D. Hamilton, "The Evolution of Cooperation," *Science* 211 (March 27, 1981), 1390-96. The stability of this strategy depends on prompt retaliation: the TIT-FOR-TAT player is "nice," but he is not a patsy. It is also important to recognize that Axelrod's treatment is limited to players who can discriminate, not to the provision of public goods as such.

¹⁹ Hardin (fn. 8), 145.

²⁰ Such conventions and tacit contracts can even embrace large groups if they are built up from the overlapping interactions of smaller groups. These smaller groups are critical

INTERNATIONAL COOPERATION UNDER THE PRISONER'S DILEMMA

This analysis of iterated Prisoner's Dilemmas suggests several vital elements of stable cooperation in international affairs:

- 1) the actors' perceptions that they are interdependent and that their decisions are mutually contingent;
- 2) a timely capacity to monitor and react to each other's decisions;
- 3) a strong interest in the long haul;
- 4) moderate differences between the payoffs for cooperation and defection.

These general conditions highlight the most significant issues in forging international cooperation. Consider, for example, the actors' interdependence. If they play the same game repeatedly or several games contemporaneously, then defections can be punished and coordination conventions can develop.

Of course, if decisions are to be made contingent (over time or across several games), then the actors' moves must be reasonably transparent. Timely monitoring is especially important if the "sucker" pays a high price for unwitting and unreciprocated cooperation.²¹ In its absence, he will be reluctant to cooperate. In general, when players share a conditional preference for cooperative solutions (as they do in the Prisoner's Dilemma), then confidence in monitoring capacity can foster cooperation.

Knowledge about other players' payoffs and strategies is important because a player who offers to cooperate runs real risks. These risks are minimized, however, if the sucker's penalty (for unreciprocated cooperation) is not grievous and if any gains from immediate defection are modest when compared to the value of long-term cooperation. There are two distinct issues here. One is how much future payoffs are discounted. If the future is highly valued, then a player might prudently risk the sucker's payoff now in hopes of fostering reciprocal cooperation over the long term. The other is the relative costliness of the sucker's payoff *in any single game*, compared to rewards for mutual cooperation and the temptations to defect. Experimental studies show that players are much more likely to cooperate when the immediate gains from

because they permit low-cost sanctions, such as exclusion, against defectors and because they help disseminate the knowledge required for conventional behavior. Hardin (fn. 8), 174, 191-93.

²¹ Thomas C. Schelling offers a perceptive discussion of these surveillance issues and their significance for U.S.-Soviet relations. When facing a potentially hostile enemy, says Schelling, "what one wants is not to *be* confident, but to be *as* confident as the true state of affairs justifies. What one wants is *grounds for confidence*, evidence that confidence is justified." Schelling, "Confidence in Crisis," *International Security* 8 (Spring 1984), 56.

FIGURE 2

PRISONER'S DILEMMAS WITH DIFFERING CARDINAL PAYOFFS

		Game 1				Game 2	
		C	D			C	D
C		1, 1	- 50, 50	C		9, 9	- 10, 10
D		50, - 50	- 1, - 1	D		10, - 10	- 1, - 1

defection (against a cooperating opponent) are small and the costs of mutual defection are high. Consider the two games in Figure 2, both of which are Prisoner's Dilemmas. If the payoffs are ranked ordinally, the two games are identical. Yet Anatol Rapoport and Albert M. Chammah found that if pairs of students played one variant hundreds of times, they were almost three times as likely to choose cooperative strategies in Game 2.²²

In cases involving jointly supplied goods (where consumption by one party does not diminish that of others), cooperation may also be impeded by free riders and communicative difficulties. The size and structure of the group are critical. Is the group able to determine its own membership? Can it exclude or punish defectors? A small group, or a larger one composed of overlapping small groups with extensive interactions, may be important for the establishment and diffusion of conventions, for the detection and sanction of defectors, and, in the case of truly public goods, for the formation of a viable coalition.²³

These game-theoretic issues have profound implications for the maintenance of political cooperation among open economies. The ramifications of contingent decision making are a good example. The basic question here is whether key actors really consider their decisions mutually contingent and can convey that point effectively. This issue is especially important, and problematic, in the case of rising economic powers like modern Japan or interwar America. Once minor players, they may be slow to recognize the full implications of their new international status. Formerly allowed to defect with impunity, they may fail

²² Anatol Rapoport and Albert M. Chammah (with the collaboration of Carol J. Orwant), *Prisoner's Dilemma: A Study in Conflict and Cooperation* (Ann Arbor: University of Michigan Press, 1965), 33-39.

²³ The problem of creating and sustaining a viable group of cooperators is treated imaginatively (as a multiperson Prisoner's Dilemma) in Thomas Schelling's "Hockey Helmets, Daylight Saving, and Other Binary Choices," in *Micromotives and Macrobehavior* (New York: W. W. Norton, 1978).

to recognize that their defections are now considered pernicious and that others' decisions are now contingent upon them. They assume, in effect, that others act completely independently. Elster terms this "parametric rationality" since it assumes that the actor's environment is a parametric constant rather than the product of strategic interaction.²⁴

To its trading partners, Japanese commercial policy appears to be an unfortunate example of parametric rationality and an illustration of the threat it poses to stable cooperation in small groups.²⁵ Although Japan has recently made substantial efforts to open its internal market, its official policies and corporate practices still make Japan harder to penetrate than other major markets. The issue is one of long standing, but it has become increasingly acute because Japan's domestic market has grown and its manufacturing trade surplus has increased at a time when many of its trading partners suffer from overcapacity. Its trade policies have never been truly reciprocal (indeed, they are more forthcoming now than ever), but the combination of Japan's size and world economic conditions has drawn attention to Japan's implicit (and parametric) assumption that its export markets will remain accessible even though its own market is still laced with restrictions. Japan's major trading partners are now challenging this assumption quite directly—by threatening trade retaliation. Responding to these credible threats, Japan has accelerated the selective opening of its domestic market even though these changes in trade barriers erode the electoral base of the ruling LDP party.

Threats of retaliation are not always taken so seriously, especially when they would be costly to carry out. Perhaps that is why less developed countries have ignored recent U.S. warnings that the Congress will raise trade barriers unless they open their markets substantially. "Oh, you won't do anything," India's trade minister told U.S. officials. "I have confidence in America, and I would be terribly disappointed if America went the protectionist route."²⁶ Referring to this candid statement, the *Wall Street Journal* concluded that the 1982 multilateral trade talks ended "without much progress, in part because no one believed the U.S. warning."

What was in doubt was America's willingness to act strategically, and therefore its capacity to threaten such action effectively. The Indian

²⁴ The *strategically* rational actor makes a much more complex calculation. Unlike the parametric actor, he assumes that his environment is made up of other calculating actors, that he is part of their strategic environment, that they know this, and so on. Elster (fn. 6), 18.

²⁵ America's protectionist Smoot-Hawley tariff, passed in 1930, is an equally good example.

²⁶ Shiv Raj Patil's private statement to U.S. Trade Representative William Brock at the 1982 GATT ministerial conference, quoted in the *Wall Street Journal*, January 17, 1983, p. 31.

minister may ultimately be proven wrong (the U.S. continues to press the point), but there is certainly a reasonable basis for his doubts. A sharp increase in American protectionism would carry high costs for the U.S. economy,²⁷ would be difficult to contain and later reverse, and would have major repercussions in Europe, legitimating and encouraging protectionism there. Trade policy making is an open, fragmented process, especially in America, and is far too cumbersome to plausibly threaten adroit strategic action. These difficulties encourage parametric thinking in all trading countries—this despite a shared recognition that the major actors' policies are fundamentally interdependent.

This discussion of trade policy making suggests some limits in our earlier treatment of strategic interaction under the Prisoner's Dilemma. Our analysis, like most stylized treatments of international bargaining, presumes that states are coherent, unitary, rational actors. This strong assumption is, of course, descriptively inaccurate. Governments do not choose between alternative tactics, as single decision makers might, to maximize expected returns or to assure some minimum payoff. Rather, such choices are typically the product of politically mediated coalition bargaining.

Such descriptive inaccuracy is hardly damning—sparse, simple models can seize essential elements of the problem at hand—but it does highlight the stylized framework of most bargaining models and the inherent limitations of their empirical application. For example, a national policy that appears irrational *as an international bargaining strategy* may actually be preferred by some domestic actors or may be the product of internal compromise. International bargaining models could then be used to analyze the implications of this suboptimal strategy. Equally important, the process of building and sustaining domestic coalitions necessarily limits the capacity of modern states to devise and execute sophisticated strategies, which may require plausible threats to change policy sharply or to stick to one policy resolutely. Although contingent strategies are often used—in the START talks, for instance, or in the GATT trade rounds—the negotiators' threats and promises may be more or less credible because of domestic political constraints.

More generally, at least four objections can be made to using the Prisoner's Dilemma as a model of international interaction. The first, already indicated, is that it oversimplifies the nature of the actors and

²⁷ To threaten trade protection as a strategic act amounts to blackmail. The reason is straightforward: blackmail involves a threat to do something that one does not really want to do for its own sake, but will refrain from doing only if compensated. See Kenneth Oye, "The Domain of Choice," in Oye, Donald Rothchild, and Robert Lieber, eds., *Eagle Entangled: U.S. Foreign Policy in a Complex World* (New York: Longman, 1979), 14.

distorts both their goals and policy processes. The second is that it fails to acknowledge the cognitive and perceptual elements of strategic interactions. The third is that it fails to capture subtle interactions: the give-and-take of bargaining, the creation of new alternatives, and the search for symmetry and joint gains. And, finally, it compresses a variety of bargaining situations into a single type of game when, in fact, several analytically distinct games are being played.

These objections, each significant in its own right, indicate the properly circumscribed uses of gaming models in the analysis of international relations. Such models cannot adequately describe the actual play of experimental subjects, much less the play of actors as complex as states. Still, as Henri Theil once remarked, "models are to be used but not to be believed."²⁸ Certainly that is true of gaming models, which are useful, despite their limitations, for the analytic exposition of bargaining relationships. They can be used to explore (1) the pattern of structural constraints on players' choices; (2) the varied inducements and punishments they represent; (3) the role of environmental variables, including time horizons, in modifying the players' interactions; and (4) the relationship between the choice of each and the outcome for all. As Glenn Snyder and Paul Diesing observe in their study of crisis bargaining, "A 2x2 model can be used to describe the *basic structure of the crisis situation*. . . . The 2x2 alternatives are not specific strategies but general directions that specific strategies may take. They represent the two basic modalities of accommodation and coercion that run through all crisis bargaining"²⁹—through all bargaining, one might say.

Nor do gaming models depreciate the importance of cognition, perception, and information processing.³⁰ As Thomas Schelling's work illustrates, gaming can be used to consider the role of expectations and the complex motivational structures associated with particular games.³¹ These cognitive and communicative issues are central to the analysis of coordination games, for instance. In pure coordination games, including contract by convention, neither player has any reason to defect. But, because there may be more than one equilibrium, the solution may fall

²⁸ Henri Theil, *Principles of Econometrics* (New York: John Wiley, 1971), vi. I am indebted to Adam Przeworski for this quotation.

²⁹ Glenn H. Snyder and Paul Diesing, *Conflict among Nations* (Princeton: Princeton University Press, 1977), 83 (their emphasis).

³⁰ Arthur Stein, "When Misperception Matters," *World Politics* 34 (July 1982), 505-26.

³¹ Schelling, for example, finds three distinct motivational structures associated with the game of Chicken. Chicken can be a "pure test case" in which the only stakes are the players' reputations; it can be a "conventional case" in which the nominal stakes take on special importance by virtue of the actors' own commitments to winning them; and finally the "real case" in which the ostensible stakes are intrinsically valuable to the players. Thomas C. Schelling, *Arms and Influence* (New Haven: Yale University Press, 1966), 118-19.

short of Pareto optimality if players cannot communicate adequately. These informational requirements are especially important because, for small numbers of actors, an iterated Prisoner's Dilemma of indeterminate length is essentially equivalent to a coordination game.

STRATEGIC INTERACTION IN SECURITY AND ECONOMIC ISSUES

This extended treatment of the Prisoner's Dilemma and its variations lays the groundwork for reconsidering the basic question with which we started: Why are significantly different institutional arrangements associated with international economic and security issues? The answer lies, I think, in sharply differing ideal-typical forms of strategic interaction in these two broad issues.

Conflict and cooperation are, of course, comingled in both issues, but there are still important and systematic differences: economic issues are characterized far more often by elaborate networks of rules, norms, and institutions, grounded in reasonably stable, convergent expectations. Security regimes, on the other hand, are very rare indeed, as Robert Jervis and others have concluded.³² One might object that a reasonably stable set of rules and norms (although virtually no permanent, formal organization) does exist in certain carefully defined areas such as nuclear proliferation, weapons testing, and so forth. Reaching back to the early nineteenth century, some would even call the Concert of Europe a generalized security regime since it encompassed a range of basic national security concerns among the major powers. But the basic point still stands. Generalized security regimes are exceptional, even though alliances are not. There are few equivalents in the security field to the comprehensive, rule-guided arrangements in trade and money. *The real question is why security regimes—but not economic ones—are so rare and so limited in scope.*

One straightforward answer is that security issues and economic issues lend themselves to quite different types of strategic interaction. According to this view, economic games often involve relatively simple coordination or mutually beneficial exchange. Security issues, by contrast, are inherently more conflictual and their equilibria less stable. The recurrent attention paid by security analysts to the game of Chicken is testimony to this view.³³

This answer is both illuminating and misleading. It resists, quite

³² Robert Jervis, "Security Regimes," *International Organization* 36 (Spring 1982), 357-78.

³³ Steven J. Brams, for instance, treats the Cuban Missile Crisis as a game of Chicken in *Game Theory and Politics* (New York: Free Press, 1975), 39ff.

properly, any conflation of international affairs into one or two simple games. Certainly the Prisoner's Dilemma is not a prototype for all interactions. It also underscores the sharper conflicts that surround security issues and implies that the skillful use of gaming approaches must pay close attention to payoff matrices, as the actors themselves understand them.

Yet it is seriously misleading to assume that security issues do not present the opportunity for significant joint gains, or at least the prevention of joint losses. Even adversaries like the United States and the Soviet Union wish to avoid nuclear war. And both could profit from restraints on arms racing: limits on the number of launchers and warheads, reduction of conventional forces in Europe, and so forth. Fundamental opposition, colored by mistrust, is thus tempered by the chance for genuine joint gains. This complex mix of motives was captured in Nikita Khrushchev's comment about John Kennedy: "He was, so to speak, both my partner and my adversary."³⁴

This mix of motives suggests a broad analogy to the Prisoner's Dilemma. Each nation would undoubtedly prefer military superiority; that is, it would prefer to defect opportunistically while the other state accommodated. Similarly, the worst alternative for each is to play the sucker while the other state builds its arsenal and extends its military reach. To minimize these grave risks, each may avoid cooperation, or sharply limit its scope, producing a result no one really wants: a competitive escalation of military research, expenditures, and deployments. If the analogy to the Prisoner's Dilemma holds, both countries consider this competitive escalation inferior to a cooperative, negotiated solution, but better than unilateral restraint. In this important sense, the major powers are, in Bruce Russett's phrase, prisoners of insecurity.³⁵

This dilemma is not a static, one-shot affair, but a game played repeatedly. The United States and the Soviet Union are militarily interdependent on a continuing basis, just as the United States, Japan, and Western Europe are economically interdependent. The superpowers also recognize that their decisions are mutually contingent, even if they habitually portray their own actions as prudent *responses* and gloss over their own impact on others. In all these respects, including the opportunity to avoid joint losses, security issues share significant common features with economic issues.

Where contingent decision making is the rule, cooperative solutions

³⁴ Quoted in Bruce Russett, *The Prisoners of Insecurity* (San Francisco: W. H. Freeman, 1983), 99.

³⁵ *Ibid.*

are possible in iterated Prisoner's Dilemmas. But if both economic and security issues can be understood, in part, as iterated Prisoner's Dilemmas, then why are cooperative arrangements rare in one, recurrent in the other? The answer lies in the conditions that foster cooperation in games of indefinite iteration. Cooperation is most likely if (1) the future is not highly discounted, and (2) the penalty for unreciprocated cooperation is not devastating.

What is typically different in economic and security affairs is:

- the immediate and potentially grave losses to a player who attempts to cooperate without reciprocation; and
- the risks associated with inadequate monitoring of others' decisions and actions.

If a security game is indefinitely iterated, cooperation (including a generous effort to begin cooperation) may well be rational individually as well as collectively. But if one player, by defecting, can reap rewards by placing the other player at an immediate and overwhelming disadvantage, then there is little hope for stable, extensive cooperation.

*It is this special peril of defection, not the persistence of anarchy as such, that makes security preparation such a constant concern.*³⁶ In "placid peacetime," write Snyder and Diesing, the expectation of war (the worst defection) remains in the background, its effects muted and hard to observe. In a crisis, however, "the expectation [of war] is dramatically elevated and its behavioral effects stand starkly revealed."³⁷ But a crisis is too late to begin serious military preparation, too late to discover that one's cooperative efforts have been dashed. Knowing these risks, prudent states are reluctant to cooperate with adversaries unless they can monitor with confidence, prepare in time to meet a prospective defection, and circumscribe the arrangements to minimize vulnerability.

In game-theoretic terms, this danger of defection has two complementary elements: the immediate gains from defection and the long-term costs. The costs, which stem from diminished cooperation in the future, can be given a present value. If these prospective payoffs are deeply discounted, or if one's opponent is likely to defect anyway, then the game resembles a finite Prisoner's Dilemma and there is a best strategy: defection. We have also seen how, in experimental settings, defections are encouraged when the immediate gains are high.

This deadly logic of noncooperation lies behind Rousseau's fundamental insight:

³⁶ Anarchy is a necessary condition for the security dilemma, but it is misleading to stress it exclusively, since anarchy and extensive cooperation coexist in international economics.

³⁷ Snyder and Diesing (fn. 29), 4.

It is quite true that it would be much better for all men to remain always at peace. But so long as there is no security for this, everyone, having no guarantee that he can avoid war, is anxious to begin it at the moment which suits his own interest and so forestall a neighbour, who would not fail to forestall the attack in his turn, at any moment favourable to himself, so that many wars, even offensive wars, are rather in the nature of unjust precautions for the protection of the assailant's own possessions than a device for seizing those of others. However salutary it may be in theory to obey the dictates of public spirit, it is certain that, politically and even morally, those dictates are liable to prove fatal to the man who persists in observing them with all the world when no one thinks of observing them towards him.³⁸

Thus, the high costs of unreciprocated cooperation, together with uncertainty about others' intentions, fuels suspicion and fosters anxiety to strike first.³⁹ Under these difficult conditions, all interactions with potential adversaries may come to be seen as purely competitive, or may be plausibly depicted that way in political discourse. In the extreme case, termed "status games," each player aims exclusively to maximize the *difference* between his own score and that of his opponent.⁴⁰ This harsh perspective transforms a variable-sum game like the Prisoner's Dilemma into a strictly competitive struggle with no possibility for joint gains.

In practice, two factors dampen this tendency and encourage modest collusion between the superpowers. First, as long as there is little prospect of a successful first strike, the confrontation is likely to remain a deterrent standoff. This prospect of continuity (as we have observed) encourages further cooperation, at least to diminish the risks of a clear common aversion such as nuclear war.⁴¹ Second, although competitive status concerns are important, they are typically combined with welfare goals, leaving some room for joint maximization. Even so, the tendency to convert variable-sum games into constant-sum struggles is a persistent feature of security issues and an impediment to cooperative conventions.

This mixture of status and welfare calculations can be found in both security and economic negotiations, but, in economic negotiations, status goals are seldom a significant end in themselves. Rather, they are instrumental—a rough measure of balance among the parties in extending

³⁸ J. J. Rousseau, *A Lasting Peace through the Federation of Europe*, trans. by C. E. Vaughan (London: Constable, 1917) 78-79, as quoted in Robert Jervis, *Perception and Misperception in International Politics* (Princeton: Princeton University Press, 1976), 63.

³⁹ It will be especially difficult to allay these suspicions when the offense is considered dominant.

⁴⁰ Martin Shubik, "Games of Status," *Behavioral Science* 16 (March 1971), 117-29; Arthur Stein, "Coordination and Collaboration: Regimes in an Anarchic World," *International Organization* 36 (Spring 1982), 319.

⁴¹ Note that as both sides' fear of a preemptive strike has increased, cooperation on strategic issues has become more difficult—precisely when it is most needed.

trade concessions, for example. In security matters, on the other hand, status calculations are often critical to the overall value of the agreement to either side. Opponents of SALT II, for instance, argued that the treaty gave the Soviets certain advantages, so the U.S. was necessarily the loser *even if there were significant joint benefits*.⁴²

This recurrent image of competitive struggle, and the anarchic conditions in which it is rooted, naturally limits the scope and durability of security agreements between potential adversaries. In spite of the risks, however, agreements are still possible if each side has reasonable grounds for confidence and if defection does not threaten devastation.⁴³ The specific environment is crucial. Surveillance capabilities, weapons characteristics, the scope of the proposed agreement, and the pace of technological change all matter a great deal. So, too, do actors' perceptions about each other's willingness to act in bad faith—and its likely consequences.

If it takes time to execute a really damaging defection, and if good-faith cooperators can detect violations promptly, then agreements are quite possible. They are possible, at least, if adversaries are confident about their monitoring and their ability to withstand a surprise defection.⁴⁴ Similarly, agreements are more likely if both sides have a significant margin of security, a "surplus" allowing each to proffer cooperation with some protection in case the agreement fails.⁴⁵ Finally, if defensive forces are considered preeminent, the risks of any breakdown are surely lessened and the opportunities for agreement significantly broadened. The most fragile and dangerous situation by far is when offensive forces are believed to hold the advantage and when an offensive posture cannot be reliably distinguished from a defensive one.⁴⁶

A margin of safety may be necessary for arms control, but it is not sufficient. The essential dilemma, unresolvable in the abstract, is whether

⁴² Opponents of SALT II also emphasized the difficulties of monitoring compliance—a recurrent obstacle to security cooperation, as we have already noted. In this case, the difficulties are related to the characteristics of specific weapons systems, the nature of treaty provisions, and the limits of technical surveillance (in the absence of on-site inspection).

⁴³ Schelling (fn. 21), 56.

⁴⁴ The best situation, as Jervis notes, is one in which "a state will not suffer greatly if others exploit it, for example, by cheating on an arms-control agreement . . . but it will pay a high long-run price if cooperation with others breaks down." Such situations are more common, I think, in economic issues. See Jervis, "Cooperation under the Security Dilemma," *World Politics* 30 (January 1978), 173.

⁴⁵ The idea of surplus security is developed in Bruce Andrews, "Surplus Security and National Security: State Policy as Domestic Social Action," mimeo. (Washington, D.C.: International Studies Association Convention, 1978).

⁴⁶ Jervis (fn. 44), 173, 189, 211. Therein lies much of the current debate over the deployment of new land-based ICBMs, which the Reagan administration portrays as a catch-up deterrent force but which others view as a potential first-strike weapon. Herbert Scoville, Jr., *MX: Prescription for Disaster* (Cambridge: M.I.T. Press, 1981).

to make an initial concession and then promise still more if properly reciprocated. This is the TIT FOR TAT strategy once again. Its aim is to promote reciprocal cooperation by initially lowering tension and by supplying evidence of nonaggressive intent. Clear and seemingly simple, it is actually a complex mixture of inducements and implied threats, generosity and possible retribution.

Unfortunately, it is extremely difficult for states to conceive and make credible such a sophisticated strategy. It requires a durable yet precise commitment, one that must be executed with consistency over many years.⁴⁷ Even more troublesome, an aggressive, expansive power may consider an adversary's initial concession to be a sign of weakness and irresolution rather than a carefully designed inducement to cooperate.⁴⁸ It is precisely these problems of mistrust, which spring from cognitive uncertainty and the danger of surprise, that make cooperation so difficult and unstable.

*The dangers of swift, decisive defection simply do not apply in most international economic issues.*⁴⁹ Timely monitoring is important but rarely vital since most economic actions are reasonably transparent. A few, such as nontariff barriers or short-term Mexican debt, may be opaque, but most are matters of public record.⁵⁰ Second, although defection would (by definition) injure others, the prospect of immediate, critical damage is quite unusual. As a result, states know that they can readily verify compliance with economic agreements and will have time to discuss possible violations and, if need be, adjust to them. These favorable conditions facilitate trust and diminish the risks of cooperating.

The luxury of time is especially important. Evidence from experimental gaming suggests how it may aid cooperation. If a player is given the chance to change his mind after seeing another's choice, he is much more likely to switch his move toward cooperative reciprocity than toward exploitation or betrayal.⁵¹ Thus, transparency and the absence of immediate peril encourage mutual accommodation.

⁴⁷ These issues are not germane in formal game theory since strategies are viewed as absolute commitments and all strategies are considered equally plausible. According to Shubik, "the concept of *plausibility* is at the crux of the relationship between a strict game-theoretic formulation . . . and the treatment of conflict by a mixture of 'gamesmanship,' bargaining and strategic theories, and behavioral models of man." Shubik (fn. 14), 188 (his emphasis).

⁴⁸ Jervis (fn. 38), chap. 3.

⁴⁹ There are exceptions, of course, mainly in monetary affairs. The most notable was the United States' suspension of gold convertibility on August 15, 1971.

⁵⁰ Making nontariff barriers more visible to foreign producers was a major accomplishment of the Tokyo round of trade negotiations.

⁵¹ Russett (fn. 34), 109. These experimental results suggest a significant gap in game theory: the treatment of speech acts and symbolic interaction. "Much of the confusion and misapplication of game theory," according to Shubik, "has been caused by the failure to

In the most fundamental security matters, this luxury of time may not exist. The classic instance was the rush to full mobilization after the assassination of Archduke Francis Ferdinand. In retrospect, those days in August 1914 seem positively languid when compared to the eight minutes it would take a Pershing II or SS20 to fly across the terrain of Western civilization and change it forever.

To summarize, then, our analysis has emphasized the possibilities for strategic cooperation that foster the development of rules, norms, and political institutions in the world economy, and the more impoverished possibilities in security affairs. We have argued that *both* economic and military issues are often characterized by the opportunity for joint gains and by interdependent but autonomous decision making, so these factors cannot adequately differentiate their regulation. The crucial differences appear to lie in the costs of betrayal, the difficulties of monitoring, and the tendency to comprehend security issues as strictly competitive struggles.

It is these environmental conditions that transform otherwise similar iterated Prisoner's Dilemmas into distinctive games. Speaking of such environment-rich games, Shubik concludes that considerable attention should be paid "to institutional detail, to context, and to the problem of 'realistic representation,'" including the problems of devising and interpreting rules.⁵² Indeed, the development of rule systems and common interpretations can serve as crucial signposts, as informational devices to coordinate expectations in a murky, complex environment. In security issues, though, the risks severely constrain reliance upon such conventions. They also highlight the importance of an undisturbed margin of safety and a reliable warning system for any significant security agreement.

HEGEMONS, RECESSIONS, AND THE EVOLUTION OF COOPERATION

This analysis shows how, in the context of international economic relations, cooperation can be sustained among several self-interested states. Thus, it provides a theoretically principled and empirically plausible account of sustained economic cooperation among advanced capitalist states. What it does *not* show is how such cooperation can emerge in the first place. In practice, the rise of economic cooperation and

perceive that the formal theory of games makes no claims to having solved the critical problem of how to represent verbal acts as moves. Many aspects of negotiation depend upon trust, interpretation, and evaluation. These factors and precommitments are implicitly assumed in game theoretic analysis." Shubik (fn. 12), 15.

⁵² *Ibid.*, 4.

commercial openness among industrial states has been associated with the rising power of hegemons: Victorian Britain and postwar America. I shall concentrate here on how America fostered economic cooperation in the Atlantic community. Its policies can be understood, I think, as institutionalizing a relatively open world economy through a TIT FOR TAT strategy.

To build the postwar order, the United States not only gave essential economic assistance and security guarantees to Western Europe, it also sponsored a network of multilateral institutions committed to liberalizing trade and long-term capital flows. It founded the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade and funded the Organization for European Economic Cooperation. Beyond that, the U.S. offered prominent solutions to the most serious coordination issues, made side payments when necessary,⁵³ and promoted relevant conventions of cooperation. In the same way, the United States set the limits on cooperation. When it defected from cooperative commercial arrangements, as it did in agriculture, liberal trade was stymied in the sector involved.⁵⁴ Similarly, when the International Trade Organization failed to win congressional support, it died stillborn.

These limitations are important, but the basic U.S. policy was to foster greater openness in trade and capital flows. At the broadest level, the United States was deeply engaged in the political, economic, and military reconstruction of Western Europe as a whole. Less obviously, it stimulated a discourse among parallel national bureaucracies, offering them opportunities for joint gains—but only if they could cooperate.⁵⁵

Early on, key European economic ministries were caught up in a web of collaborative enterprises. As a consequence, bureaucratic membership in the basic postwar economic regimes was solidified by the late 1940s. Repeated intercourse among these bureaucracies was to forge trans-governmental alliances in trade, money, and finance.⁵⁶

⁵³ Japan's entry into the GATT, for instance, was "bought" by U.S. trade concessions to several European states. Charles Lipson, "The Transformation of Trade: The Sources and Effects of Regime Change," *International Organization* 36 (Spring 1982), 250-51.

⁵⁴ Karin Kock, *International Trade Policy and the Gatt, 1947-1967* (Stockholm: Almqvist and Wiksell, 1969), chap. 7; Gerard Curzon, *Multilateral Commercial Diplomacy* (London: Michael Joseph, 1965), chap. 7.

⁵⁵ The best example is the postwar distribution of Marshall Plan aid to a unitary Western European institution, which then had to distribute the funds.

⁵⁶ The fact that specific bureaucracies, with their particular interests, control national participation in different regimes tends to strengthen issue-specific interdependence over time but attenuates the connections across issues. The fragmentation of national decision making thus systematically favors longitudinal (diachronic) interdependence, issue by issue, over simultaneous interdependence across many issues, which requires more centralized national control.

American leadership and the shared experiences of war and depression ultimately shaped a trans-Atlantic policy community with common values, perspectives, and language. Evidence from postwar negotiations reveals broadly shared standards for categorizing action and evaluating possible violations of embryonic rules and norms. Robert Hudec, in his study of *The GATT Legal System and World Trade Diplomacy*, concludes that such shared standards were crucial to the success of trade adjudication in the 1950s.⁵⁷

America's hegemonic system, like that of Victorian Britain, began with unilateral initiatives designed to spur multilateral cooperation (on the hegemon's terms, of course). In Britain's case, however, the opening of her domestic market was considered advantageous in its own right, regardless of what others did. The United States, which reluctantly acknowledged greater state economic controls, never aimed at such openness at home and was willing to tolerate the slow dismantling of trade and capital restrictions abroad.

The United States thus reconstituted the Atlantic community in a particular fashion, established its central institutions, and nurtured a dense array of relationships that was to ensure broad and deep interdependence. But even though the United States gave economic aid and allowed discrimination against the dollar, it was ultimately committed to a TIT FOR TAT strategy in which U.S. concessions would be fully reciprocated by the opening of foreign markets. The opening phase of this strategy established the possibility of stable, long-term cooperation. The aims were large and the efforts strikingly successful (even though the very strength of U.S. commitments created some incentives to cheat on joint activities).⁵⁸

After the difficulties of postwar reconstruction were over, the moment of greatest strain lay in the transition from hegemonic unilateralism to multilateral reciprocity. The problem is *not* that multilateral reciprocity is inherently unstable, although hegemonic systems may be more stable yet, especially when the supply of truly collective goods is involved.⁵⁹ It is rather that a difficult learning period must be traversed.

⁵⁷ Robert Hudec, *The GATT Legal System and World Trade Diplomacy* (New York: Praeger, 1975), esp. chap. 17.

⁵⁸ This suggests that there may well be an optimal level of weakness in collective arrangements—a level that, by making the strategies of others appear contingent and the outcome uncertain, diminishes the likelihood of parametric rationality and encourages strategically based cooperation.

⁵⁹ The reason is that the hegemon alone may find it worthwhile to supply the collective good, bypassing the difficulties of forming and sustaining a group of joint providers. Remember, however, that such collective goods are rare internationally and certainly do not include all cases of cooperation for joint benefit (since, in many cases, noncooperators can be excluded).

This is truly a moment of passage—what, in another context, cultural anthropologists call a liminal period (from the Latin for “threshold”). The parties’ relative status and obligations shift from fixity to ambiguity, and once-customary classification and routinized spheres of action become problematic.⁶⁰

In the world economy, this liminal period, with its special cognitive uncertainties, began in the late 1960s. By then it was clear that American economic and military capacities were diminishing, at least in relative terms. Hence, hegemonic diplomacy was no longer appropriate, as all the major actors understood in their own self-serving ways. The United States wanted to retain its leadership while bearing fewer costs. Europe wanted a larger voice in joint policies without incurring significantly greater responsibilities. These positions encapsulate what is so intriguing about moments of liminality—their implicit redescription of structure, away from a differentiated hierarchical model toward a substantially more equal community. In trade relations, this period began with the onset of the Kennedy Round, negotiated on a fully reciprocal basis and successfully concluded in 1967. In monetary relations, it began with the unraveling of the asymmetric dollar-exchange standard in the late 1960s, culminating in the breakdown of fixed exchange rates in 1971.

At the conclusion of liminal periods, in which roles are necessarily ambiguous and conventional relationships less determinate, the actors are normally reintegrated on new terms.⁶¹ The transition from a hegemonic system, however, was especially difficult because it was followed by a series of economic catastrophes. Unfortunately, we still have an inadequate understanding of the relationship between the decline of American hegemony and the decade of instability that followed. There is a tight nexus (but not necessarily a causal chain) linking U.S. military overcommitments, U.S. monetary expansion, the resulting excess of global liquidity, the oil shocks, and the ensuing recession.

That recession, the worst since the Depression, confronted all Western states with the same severe problems: high unemployment, surplus capacity, and significant inflation. It also strained, but did not break, multilateral arrangements for economic openness.

Why do recessions and depressions create such powerful incentives to defect from collective agreements and cooperative conventions? First, a recession heightens calls for *immediate* solutions to crushing problems. Since the value of collusion often lies in the longer run, and since some

⁶⁰ See, for example, Victor Turner’s analysis of rites of passage in “Liminality and Communitas,” in *The Ritual Process: Structure and Anti-Structure* (Ithaca, NY: Cornell University Press, 1969), chap. 3.

⁶¹ *Ibid.*, 94–95.

gains from defection might seem to be available immediately, the incentives for collusion will be weakest when economic crises are at hand. In the language we used earlier, the discount parameter for future rewards has shifted. Second, given the already difficult circumstances, the sucker's payoff may be disastrous. In short, cooperation becomes riskier in the short run and less valued over the long haul.

The surest obstacle to this dissolution is the mutual recognition by key actors that any defection will be met swiftly and surely by reciprocal punishment, eliminating any potential short-term gains for the "cheater." This has been an underlying theme of economic summitry, for example. So, too, has been the public recommitment to long-standing cooperative conventions. Given the scale of economic problems in the 1970s and 1980s, and the continuing shift in underlying power distributions, the continuity of cooperation through these times is far more striking than its imperfections or frailty.

CONCLUSION

Cooperation is, indeed, a fragile enterprise in the world economy. Yet rule-guided and norm-governed arrangements are far more common than the usual insistence on an international "state of nature" would suggest. The idea of anarchy is, in a sense, the Rosetta stone of international relations: a heuristic device for decoding its basic grammar and syntax. But what was once a blinding insight—profound and evocative—has ossified and so become blinding in the other sense of the word—limiting and obscuring.

Theory construction and theoretically principled accounts must incorporate this fundamental notion of deep structure, but they must also move beyond even compelling metaphors to consider the subtle ways that environmental conditions shape interactions in particular issues, the patterned incentives and disincentives for national choice, and the processes by which individual choices affect the rewards for all. This task is largely a matter of reconstructing the ways in which these rewards are structured and understood and the uneven role played by convergent expectations, which can reduce the uncertainties generated when *interdependent* players make *independent* decisions.

That states are independent actors, as the Realist tradition insists, is a durable truth. That their choices are interdependent, at least in their consequences, is equally important. It is precisely the juxtaposition of these two compelling features that defines the fundamental problems of international relations. Our theories must cope with both.

Nor should the centrality of policy choice be masked by an exaggerated distinction between the international political environment (Waltz's Third Image) and the internal structure and actions of state (the Second Image).⁶² Although this distinction is a useful clarification, it should not be extended to treat international structure as an analogue of competitive markets, which are a much more profound limitation on actors' choices.⁶³ Thus, the two images are analytically distinct but need not be treated as mutually exclusive, even in ideal-typical form. *The real problem, again, is to integrate choice and structure*, not to depreciate or conflate the distinction.

To stress interdependence is not to minimize conflict. In different contexts, interdependent decision making can produce Hobbes's "warre of all against all" or a nexus of cooperative conventions. As Louis Hartz once remarked of the debate between liberal and progressive historians, "The argument over whether we should 'stress' solidarity or conflict misleads us by advancing a false set of alternatives."⁶⁴ Our goal, instead, should be to understand the checkered pattern of rule construction and anomie in international relations.

⁶² Kenneth N. Waltz, *Man, the State and War* (New York: Columbia University Press, 1959), chaps. 4, 6.

⁶³ Kenneth N. Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley, 1979), 89-98.

⁶⁴ Louis Hartz, *The Liberal Tradition in America* (New York: Harcourt, Brace & World, 1955), 20.